

PROPERTY TAXES

Property taxes include the revenue generated from the City's share of the 1.0 percent levy assessed on the taxable value of real and personal property located within the City limits. The assessed value of secured real property that does not experience a change in ownership is increased at an inflationary rate not to exceed the California Consumer Price Index (CPI) or 2.0 percent, whichever is less. However, if a property changes ownership, it is reassessed at the current market value and new construction is initially valued at the cost of the construction. Unsecured tax on personal property such as computers and other equipment is assessed on the value of the property as reported annually to the County by each business.

PROPERTY TAX SOURCES

- Property tax assessed on secured real property
- Property tax assessed on unsecured personal property

ECONOMIC FACTORS

- General economic conditions
- Proposition 13—determines methodology of tax application, limits the annual assessed value increase and sets the tax rate
- Consumer Price Index (CPI)
- Property demand, sales and values
- New development
- Timeliness of County processing of new development and ownership transfers to the tax roll
- State legislation regarding tax allocation
- Assessment appeals

HISTORY

During Fiscal Years 1992-93 and 1993-94, the State transferred a total of \$2.5 million of City secured property tax revenues to schools ("ERAF Shift") as a way of solving its own budget shortfall at the time. This is an ongoing annual loss to the City, increasing every

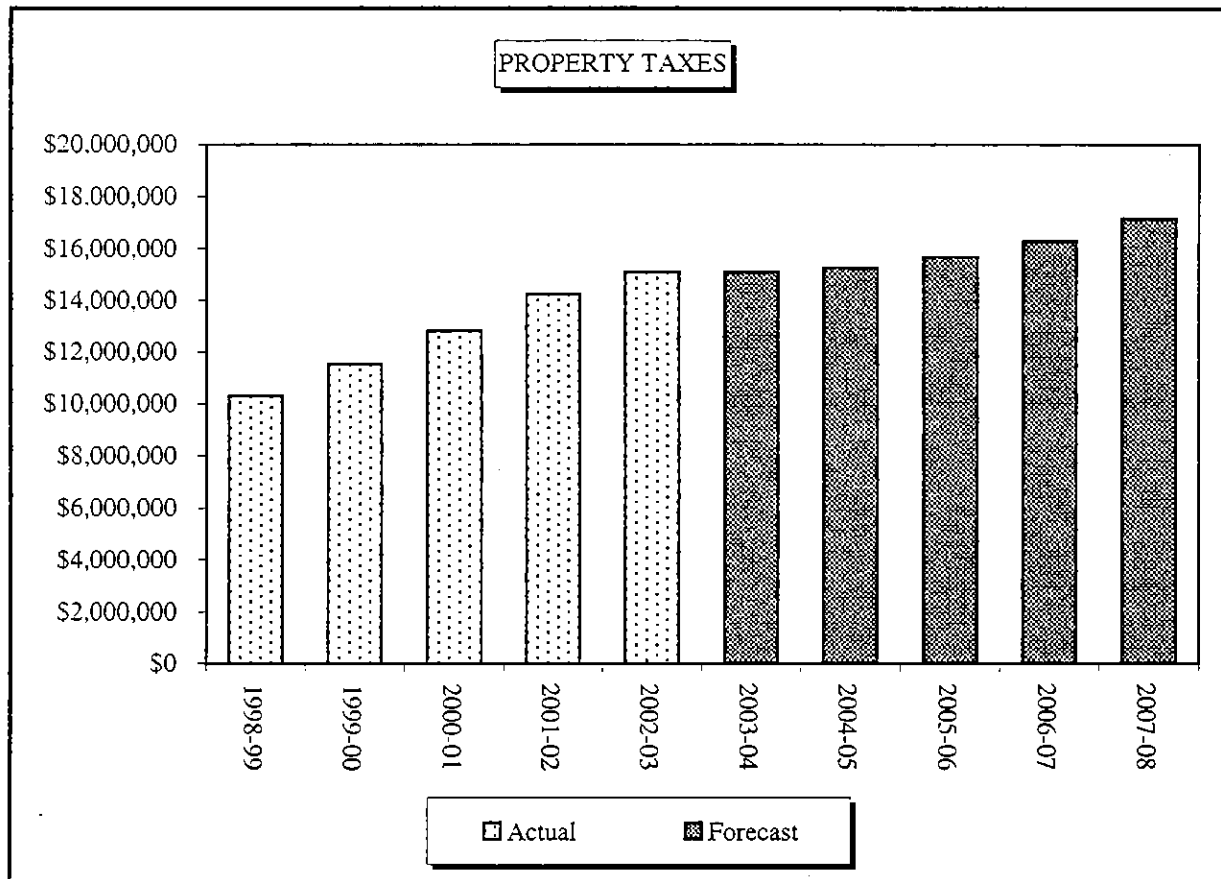
fiscal year as assessed values increase and totals \$4.2 million for Fiscal Year 2002-03. Cumulatively, the City has lost \$30.5 million since the inception of ERAF. At the same time, assessed values declined as a result of the depressed economic climate, and commercial and residential property owners filed successful assessment appeals which resulted in reduced secured and unsecured property tax revenue. The appeal activity was so high that over several fiscal years, the County was consumed with processing appeals and unable to add new development to the tax roll in a timely manner, thereby delaying payment of property tax revenue the City and other County agencies were entitled to. Beginning in Fiscal Year 1997-98, the County made significant progress adding new development to the roll and restoring assessments reduced in prior fiscal years. Over the next few years, the lack of housing for the growing employment base in Silicon Valley and the capital gains from stock sales combined to drive housing prices and taxable assessed values to an unprecedented level. Then, in early 2001, the economy stalled and property sales slowed. While establishing the tax roll for Fiscal Year 2002-03, the County proactively reviewed all commercial property as well as residential properties sold during the prior two fiscal years and reduced values for many properties.

FORECAST

Fiscal Year 2003-04 includes a 4.0 percent increase in assessed value, encompassing increased value for some new development and improvements, changes in ownership and the 2.0 percent annual increase. The County has again proactively reviewed property values, reducing some properties and restoring values for other properties reduced on the 2002-03 fiscal year roll.

The four forecast years assume the assessed value of secured property will increase at the 2.0 percent annual maximum in Fiscal Year 2004-05, increase 1.0 percent each subsequent year and does not anticipate any commercial or residential development.

The current level of commercial vacancies will negatively impact unsecured property as a result of the decreased value of commercial property lease agreements and the reduced amount of property (furnishings, fixtures, etc.) to assess tax on. The unsecured property tax projection for the 2003-04 fiscal year has been reduced 3.0 percent and is decreased 2.0 percent further in the following fiscal year. The last three forecast years include slight increases.



<u>Fiscal Year</u>	<u>Annual Revenues</u>	<u>% Change</u>
1998-99	10,298,000	9.7%
1999-00	11,534,000	12.0%
2000-01	12,825,000	11.2%
2001-02	14,262,000	11.2%
2002-03 *	15,110,000	5.9%
2003-04 **	15,111,000	0.0%
2004-05	15,267,000	1.0%
2005-06	15,676,000	2.7%
2006-07	16,298,000	4.0%
2007-08	17,143,000	5.2%

* Unaudited

** Adopted